IR+M

Hello from IR+M,

In a move that likely surprised no one, yesterday the Federal Reserve kept its monetary policy on ice and held interest rates steady. After closing out 2025 with three consecutive rate cuts, the Fed used its first meeting of the new year to reinforce its message of patience, signaling that additional near-term easing is far from assured. While the decision itself was expected, the subtle shifts in tone suggest the bar for future cuts has been raised, even as economic risks remain. Please see below for our Investment Team's key takeaways.

As always, please reach out if you have any questions or if we can help in any way.

## Investment Team Insights

**Were there any policy changes?**

As was widely expected, the Fed kept rates unchanged at its first meeting of 2026. Following three successive cuts to close out last year, the fed funds rate was maintained at a range of 3.50% to 3.75%. By holding interest rates steady, the Fed adhered to the forward guidance outlined at its last meeting, which emphasized that further near-term easing was not assured. While the decision was not unanimous, with two dissenting voters in favor of reducing rates, Chair Powell noted at his press conference that there was broad support to hold firm.

**Was their message hawkish or dovish?**

We would characterize the message delivered by the Fed as slightly hawkish, as the bar to cut rates further over the next few meetings was seemingly raised. Beginning with its policy statement, the Fed made a few wording modifications, which suggest somewhat diminished concerns around the future path of the economy. The Fed described the labor market, which remains its biggest worry, as showing signs of stabilization. Further, the statement noted that economic activity, which had been expanding moderately, has now been upgraded and is growing at a solid pace. While the outlook is improving, it is not without risks, as Chair Powell mentioned that there are signs within parts of the labor market that it continues to soften.

**What was the market reaction?**

Treasury yields moved higher by a couple of basis points following the release of the FOMC statement, given the wording changes described above. Equities also sold off briefly but quickly reversed course and recovered. Markets tied to future expectations of the fed funds rate saw a very modest uptick, reflecting slightly reduced odds of further declines in the Fed's overnight rate.

**What's next?**

The stance of monetary policy seems somewhat anchored until economic data provides a clearer picture. The majority of FOMC members believe policy is at an appropriate level, one that will allow it to respond to risks on both sides of its dual mandate, if necessary. However, there is no shortage of items in the immediate future that could have significant implications for the Fed. The first development will likely be the President's decision on his nominee to succeed Chair Powell, whose term ends in May. Despite the slow pace of this announcement, the calendar will soon force a decision. Additional other near-term considerations for the Fed include the Supreme Court's decision on Governor Lisa Cook and ongoing questions surrounding DOJ subpoenas tied to Chair Powell's past congressional testimony.

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